



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

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Project Number

1240012

This report can be made available in alternate format upon request.

Aviation Department Contract Audit – Turo Car Sharing

November 2, 2023

Report Highlights

Revenue

In general, Turo appeared to be appropriately excluding certain fees from revenues before calculating the 10% remitted to the City. However, Turo is excluding an Operating Recovery Fee that may need to be included. Aviation needs to determine if this is appropriate, and clarify its decision in the new contract.

Unreported Transactions

It appears that unreported transactions are taking place at Sky Harbor. To confirm, additional data is needed from Turo. Providing this data should be required in the new contract.

Transaction Location

Turo is not in compliance with transaction location requirements.

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Executive Summary

Purpose

We reviewed financial records and rental car reports provided by Turo, Inc. (Turo) to determine compliance with the operating agreement between the City of Phoenix (City) and Turo.

Background

In May 2022, the City of Phoenix Aviation Department (Aviation) entered into an Operating Agreement (No. 156350) with Turo to use certain areas at Sky Harbor International Airport (Sky Harbor) to provide vehicle sharing services for the convenience of the public. Turo operates on a month-to-month basis.

Turo operates a peer-to-peer vehicle sharing application which allows owners to rent vehicles to individuals. Peer-to-Peer car sharing involves a privately-owned vehicle being rented to another individual through a peer-to-peer business that provides a platform for owners to rent vehicles for a fee.

The Operating Agreement states that Turo will pay ten percent (10%) of gross revenue per month for vehicle sharing transactions that are conducted at the airport or that use a permitted shuttle service provider to access the shared vehicle off airport premises where the shared vehicle driver selects the airport as the delivery location for the shared vehicle.

Turo's reported revenue for the twelve month period June 2022 through May 2023 was \$24,830,760. Turo paid Aviation \$2,483,076 for this period.

Results in Brief

Monthly percentage payments were submitted in accordance with the operating agreement. However, Turo has not paid Aviation privilege tax.

We reviewed reports from the City's financial system (SAP) and verified that the gross revenue amounts due were paid and matched Turo's monthly revenue reports. Monthly percentage payments were submitted in accordance with the Operating Agreement.

Aviation noted that Turo has not paid privilege tax. For the audit period, the amount due for privilege tax was \$72,009. Aviation is working with Turo to resolve this issue and should collect unpaid privilege tax and any delinquent fees.

In general, Turo appeared to be appropriately excluding certain fees from revenues for calculating the 10% remitted to the City. However, Turo is excluding an Operating Recovery Fee that may need to be included. Aviation needs to determine if this is appropriate, and clarify its decision in the new contract.

We traced revenue from the monthly report to detailed transaction reports to validate accuracy and identify any underreported revenue.

Accuracy

We selected three months for detailed testing. We noted that all revenue categories on the monthly report agreed to the detailed transaction report. We did not identify any exceptions.

Underreported Revenue

From the 60 transactions we reviewed, we noted that a category titled “Fee as a result of having delivery to a POI (airport)” was being deducted from gross revenue paid to Aviation. From June 2022 to May 2023, Turo collected \$2,483,076 and excluded it from reportable revenue. If it is counted as reportable revenue, then Turo owes the City \$248,308.

Per the contract, it appears this is an Operator Recovery Fee. This category is not listed as an exclusion. Therefore, it appears Turo should be paying 10% for the amount collected. In discussions with Aviation staff, they were not sure if it should be excluded. This should be discussed and decided upon prior to creating the new contract.

It appears that unreported transactions are taking place at Sky Harbor. To confirm, additional data is needed from Turo. Providing this data should be required in the new contract.

We requested latitude and longitude reports for rental contracts for two months. However, Turo stated that they recently changed their location systems so they could no longer provide this information. They reported they had requested their IT staff to provide this ability.

Since we were unable to obtain any additional location data from Turo, we asked Aviation to run a report of license plates from Turo’s monthly report for all occurrences at Sky Harbor locations for April 2023. We compared the license plates and dates to Turo’s April monthly report. We then selected a sample of 20 license plates to see if Turo reported all transactions when compared to Aviation’s report. We noted that 11 of the 20 appear to have additional trips that are not reported to Aviation.

Turo is not in compliance with transaction location requirements.

The Operating Agreement specifies that shared vehicle owners use the south curb of the East Economy Lot Sky Train Station or the East Economy Parking facility to conduct transactions. We reviewed license plate recognition comparison reports for April and May 2023. We found that about one-third of transactions were not taking place in authorized locations.

Department Responses to Recommendations

Rec. #1.1: Recover the amount of privilege tax owed plus delinquent fees.	
<p>Response: Aviation Business and Properties will forgo recovery and collection of Transaction Privilege Tax and related delinquent fees during the current term of P2P Temporary Use Agreement with Turo.</p> <p>Current Phoenix Sky Harbor International Airport Peer-to-Peer Car Sharing Program Operating Agreement Between City of Phoenix and Turo does not include standard City of Phoenix Tax language. Exclusion of City tax language significantly limits Aviation Business and Properties ability to collect Transaction Privilege Tax.</p> <p>Business and Properties will consult with City Tax attorney and include City Tax language in new Car Sharing agreement with Turo specifically including and confirming Turo’s obligation to pay Transaction Privilege Tax.</p>	<p>Target Date: December 15, 2023</p>
Rec. #1.2: Require Turo to provide latitude and longitude data for trip start and end locations to help ensure contract compliance.	
<p>Response: Business and Properties will negotiate to include latitude and longitude data for start and end locations or similar location tracking in future Operating Agreements with Turo and other potential Peer-to Peer operators. Currently Turo has informed Business and Properties that their platform does not provide this information but that they are working to incorporate. No date was given for this provision from Turo.</p>	<p>Target Date: July 1, 2024</p>
<p>Explanation, Target Date > 90 Days: Aviation Department Business and Properties Division is submitting to Phoenix City Council on or after January 3rd, 2024 a request to revise City Ordinance to establish a 10% fee on Peer-to-Peer vehicle sharing operators. Contingent upon City Council’s approval of City Ordinance revision, Aviation Business and Properties will commence negotiations with Turo for a new Operating Agreement. Business and Properties will provide City Auditor’s office written updates, every 3 months beginning on or before April 3rd, 2024, on negotiations related to recommendation #1.2.</p>	
Rec. #1.3: Determine if Turo’s Operator Recovery Fee should be included in gross revenues and billed at 10%. If the fee should be included, then determine if the \$248,308 owed should be recovered for the period audited. Ensure the new contract clearly states if the fee is included or is not included in reportable revenue.	
<p>Response: Business and Properties recognizes the Temporary Operating Agreement does not exclude the Operator Recovery</p>	<p>Target Date: July 1, 2024</p>

<p>Fee from gross revenue and is therefore subject to the 10% Operator Fee. Business and Properties business decision is to forgo collection of 10% on Operator Recovery Fee for transactions conducted under the Temporary Operating Agreement.</p> <p>Business and Properties will strengthen contractual language in new P2P Operating Agreement with Turo to clarify and confirm Operator Recovery Fee will be considered revenue which will be subject to the Peer-to-Peer 10% Operating Fee.</p>	
<p>Explanation, Target Date > 90 Days: Aviation Department Business and Properties Division is submitting to Phoenix City Council on or after January 3rd, 2024 a request to revise City Ordinance to establish a 10% fee on Peer-to-Peer vehicle sharing operators. Contingent upon City Council's approval of City Ordinance revision, Aviation Business and Properties will commence negotiations with Turo for a new Operating Agreement. Business and Properties will provide City Auditor's office written updates, every 3 months beginning on or before April 3rd, 2024, on negotiations related to recommendation #1.3.</p>	
<p>Rec. #1.4: Ensure Turo reports include valid license plates on their monthly reports for all transactions.</p>	
<p>Response: Business and Properties will incorporate in new Turo operating agreement a minimum accuracy requirement for reporting of license plate information submitted in Turo monthly transaction reports with escalating financial liquidated damage penalties for non-compliance.</p>	<p><u>Target Date:</u> July 1, 2024</p>
<p>Explanation, Target Date > 90 Days: Aviation Department Business and Properties Division is submitting to Phoenix City Council on or after January 3rd, 2024 a request to revise City Ordinance to establish a 10% fee on Peer-to-Peer vehicle sharing operators. Contingent upon City Council's approval of City Ordinance revision, Aviation Business and Properties will commence negotiations with Turo for a new Operating Agreement. Business and Properties will provide City Auditor's office written updates, every 3 months beginning on or before April 3rd, 2024, on negotiations related to recommendation #1.4.</p>	
<p>Rec. #2.1: Once a new contract is in place, develop a process to regularly monitor and enforce transaction location.</p>	
<p>Response: Business and Properties Peer-to-Peer Contract Manager in cooperation with Aviation Technology division will utilize Sisense, License Plate Recognition software and Turo monthly transaction reports to identify Turo transactions which were conducted in unauthorized parking locations. Business and Properties will notify Turo of violations and impose escalating liquidated damage penalties per contractual terms monthly.</p>	<p><u>Target Date:</u> July 1, 2024</p>

Explanation, Target Date > 90 Days: Aviation Department Business and Properties Division is submitting to Phoenix City Council on or after January 3rd, 2024 a request to revise City Ordinance to establish a 10% fee on Peer-to-Peer vehicle sharing operators. Contingent upon City Council's approval of City Ordinance revision, Aviation Business and Properties will commence negotiations with Turo for a new Operating Agreement. Business and Properties will provide City Auditor's office written updates every 3 months beginning on or before April 3rd, 2024 on negotiations related to recommendation #2.1.

1 – Gross Revenue and Payments

Background

The Operating Agreement defines gross revenues as all amounts paid or payable to Turo, including payments to shared vehicle owners for providing vehicle sharing services. All revenue is included in this definition unless specifically excluded in the agreement. As consideration for operating at Sky Harbor, Turo agrees to pay 10% of gross revenue per month for vehicle sharing transactions. Each month, Turo submits a monthly report to Aviation, which includes the reservation ID, license plate, trip start and end, and charges for the period.

Turo Payments June 2022 Through May 2023

	# of Transactions	Gross Revenue
June 2022	2,085	\$624,036
July 2022	2,712	\$884,646
August 2022	3,577	\$1,091,829
September 2022	4,896	\$1,541,511
October 2022	6,921	\$2,600,761
November 2022	5,898	\$2,284,637
December 2022	4,436	\$1,471,882
January 2023	5,607	\$1,911,223
February 2023	7,499	\$2,894,823
March 2023	10,002	\$4,070,758
April 2023	8,059	\$3,116,693
May 2023	7,616	\$2,337,961
Total	69,308	\$24,830,760

Turo paid \$2.48 million from June 2022 through May 2023.

We reviewed Turo monthly reports and Aviation reports to ensure gross revenues were reported accurately and completely.

Results

Monthly percentage payments were submitted in accordance with the operating agreement. However, Turo owes Aviation privilege tax.

Turo pays 10% of gross revenue per month for transactions. The monthly report is due to Aviation by the 20th day of each month. Phoenix City Code Section 4-7 states, “payment due dates shall be subject to a ten-calendar-day grace period, and thereafter shall be delinquent and subject to a delinquent account fee of one and one-half percent per month, not to exceed eighteen percent per annum.”

We reviewed reports from the City’s financial system (SAP) and verified that the gross revenue amounts due were paid and matched Turo’s monthly reports. Monthly percentage payments were submitted in accordance with the operating agreement.

The agreement requires Turo to provide trip start location and trip end location. Turo’s report lists Sky Harbor as the start and stop location. However, this information is not sufficient to determine compliance with other agreement terms and more specific location information. For example, garage or parking lot location should also be specified in Turo’s monthly reports.

Aviation identified that Turo was not paying privilege tax. The Aviation Fiscal Management Division (FMD) has been calculating the 2.9% privilege tax amount due each month. Aviation has also assessed delinquent fees for these payments in accordance with the City Code. For the audit period, the amount due for privilege tax is \$72,009. During the course of our audit, Aviation staff provided documentation from the City’s legal staff that confirmed that Turo does owe the privilege tax but the percentage is 2.4%. Aviation is working with Turo to resolve this issue.

In general, Turo appeared to be appropriately excluding certain fees from revenues for calculating the 10% remitted to the City. However, Turo charged a 10% Operator Recovery Fee that was not included in gross revenue. The new contract needs to be more explicit in stating if this fee can be excluded.

We traced revenue from the monthly report to detailed transaction reports to validate accuracy, identify any underreported revenue, and ensure completeness of data.

Accuracy

We selected three months for detailed testing. We reviewed monthly transaction reports to determine that gross revenue was properly reported and that deductions were allowed according to contract requirements.

We randomly selected 20 transactions from each month and traced back to a transaction history report provided by Turo. We noted that all revenue categories on the monthly report agreed to the detailed transaction report. Some categories were deducted from revenue reported to Aviation. These were allowable according to the contract, including:

- Any amounts received which are fully passed through to shared vehicle owners, such as post-trip reimbursements and smoking fees;
- Any amounts received for any cancellation fees; and,
- Federal, state, or local sales or tourism taxes collected and remitted to the taxing authority.

We did not identify any exceptions.

Underreported Revenue

From the 60 transactions we reviewed, we noted that a category titled “Fee as a result of having delivery to a POI (airport)” was being deducted from gross revenue paid to Aviation. We conducted detailed testing for 3 of the 12 months from June 2022 through May 2023. In those three months, we found that Turo collected the exact amount due to the airport as its “Fee as a result of having delivery to a POI (airport).” Therefore, for the 12 month period, Turo collected \$2,483,076 and excluded it from reportable revenue. If it were counted as reportable revenue, then Turo would owe the City \$248,308.

Per Turo’s description of the account, they stated that:

“This airport requires Turo to collect and remit to the airport a fee that allows your host to deliver a vehicle there. Turo doesn’t set this fee, mark it up, or retain any portion of it. This fee is separate from any pickup or return charges from your host.”

Per the contract, it appears this is an Operator Recovery Fee. This category is not listed as an exclusion from reportable revenue. Therefore, it appears that Turo should be paying 10% of the amount collected. In discussions with Aviation staff, they were not sure if it should be excluded. This should be discussed and decided prior to creating the new contract.

It appears that unreported transactions are taking place at Sky Harbor, but additional data is needed from Turo to confirm this, and should be required in the new contract.

We requested latitude and longitude reports for rental contracts for two months. However, Turo stated that they recently changed their location system so they could no longer provide this information. They stated that they have requested their IT staff to provide this ability. Our desire was to get location data for transactions not designated as a Sky Harbor transaction, to confirm that there are no unreported transactions (transactions that were listed as a Phoenix, Tempe, Scottsdale, etc., transaction in Turo’s system, but actually involved an exchange at Sky Harbor).

Since Turo could not provide the data, we requested transaction history for several specific addresses, but Turo does not track specific address locations, as noted before. Any transactions for Sky Harbor just have a start and end location of Sky Harbor, without any additional detail.

Since we were unable to obtain any additional reports from Turo, we asked Aviation to run a report to match license plates from the Aviation LPR system to Turo's monthly report for all occurrences at Sky Harbor locations for April 2023. We compared the license plates and dates to Turo's April monthly report. We noted that 32% of transactions in Turo's report did not have valid license plates, limiting the effectiveness of our test.

We then selected a sample of 20 license plates to see if Turo reported all transactions when compared to Aviation's LPR report. We noted that 11 of the 20 appeared to have additional trips that are not reported to Aviation. We matched all parking garage transactions to trip start/stop dates. For the 11 potential exceptions, there were two extra days where the vehicle was in the parking garage for only a few hours, making it appear that it was not for personal travel, but rather for a Turo transaction.

We requested all transaction data for 3 of the 11 vehicles from Turo, to see if they had trip start and stop dates that corresponded to our observations, but were categorized as a Phoenix, Tempe, etc., transaction. However, Turo only provided the data for transactions where the category was designated as a Phoenix Sky Harbor transaction in their system. Because Aviation had not told Turo that they can monitor entry/exit by license plate, we did not press Turo for more data. But this approach is something Aviation should consider in the future to identify unreported revenue.

Recommendations

- 1.1 Recover the amount of privilege tax owed plus delinquent fees.
- 1.2 Require Turo to provide latitude and longitude data for trip start and end locations to help ensure contract compliance.
- 1.3 Determine if Turo's Operator Recovery Fee should be included in gross revenues and billed at 10%. If the fee should be included, then determine if the \$248,308 owed should be recovered for the period audited. Ensure the new contract clearly states if the fee is included or is not included in reportable revenue.
- 1.4 Ensure Turo reports include valid license plates on their monthly reports for all transactions.

2 – Monitoring

Background

The Operating Agreement specifies that shared vehicle owners use the south curb of the East Economy Lot Sky Train Station or the East Economy Parking facility to conduct transactions. This helps regulate traffic flow through the airport, which can be congested at times.

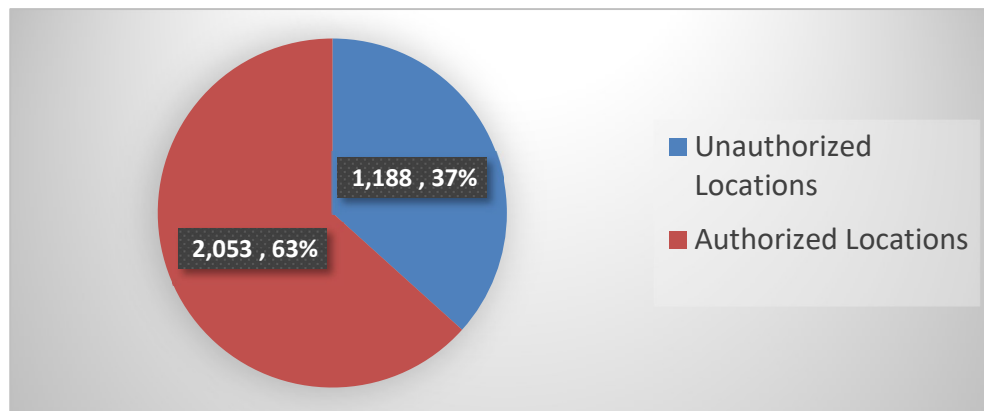
Results

Turo is not in compliance regarding transaction locations.

Earlier this year, Aviation began monitoring where Turo transactions were being conducted. The IT section of Aviation created a process to match data from the Aviation License Plate Recognition System (LPR) to Turo's detailed monthly report that includes license plate numbers. The LPR report matches based on license plate numbers and dates, and allows staff to determine where transactions take place. One drawback, as noted in Observation 1, is that about 30% of Turo's monthly report has bad data in the license plate field, limiting the effectiveness of this control.

We reviewed LPR comparison reports for April and May 2023. In April 2023, 62% of the transactions were in the authorized, East Economy locations. In May 2023, 65% of the transactions were in the authorized locations.

April and May 2023 Transaction Locations



Over one-third of transactions took place in unauthorized locations.

Aviation notified Turo a few months ago regarding non-compliance; however, Aviation has intentionally not notified them recently because management agreed that it would not be helpful to divulge their method to track compliance until a final contract is in place.

Recommendation

- 2.1 Once a new contract is in place, develop a process to regularly monitor and enforce transaction location.

Scope, Methods, and Standards

Scope

We reviewed financial data and Operating Agreement No. 156350 for the period of June 2022 through May 2023.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.
- Monitoring Activities
 - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Methods

We used the following methods to complete this audit:

- We reviewed the contract and appropriate City codes.
- We interviewed staff to obtain an understanding of the process.
- We obtained the monthly reports from SAP to test for accuracy and timeliness.
- We verified the accuracy of the monthly gross revenue amount paid to Aviation.
- We judgmentally selected three sample months for detailed testing.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

The SAP data was previously determined to be reliable through an independent audit review. The reliability of financial data from Turo reports was determined by comparing data to SAP and tracing a sample of transactions back to underlying data. The reliability of license plate data was determined through interviews, data review, and comparison to License Plate Recognition data provided by Aviation. The license plate data from Turo was not reliable; about one-third of transactions had bad license plate data. See Recommendation #1.4.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.